



MONTANA LEGISLATIVE BRANCH

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Legislative Fiscal Analyst
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DATE: February 8, 2008

TO: Revenue and Transportation Interim Committee

FROM: Terry W. Johnson, Principal Fiscal Analyst

RE: Determination of Refundable Income Tax Credit Relief Multiple

INTRODUCTION

House Bill 9 enacted during the May 2007 Special Legislative session contained a fiscal policy trigger that was dependent upon the amount of general fund revenue received in fiscal 2007. As required by this legislation, the Department of Administration certified to the budget director that fiscal 2007 general fund revenues had exceeded the \$1.802 billion trigger amount by \$36 million. The bill also described a process on how the excess revenue (if available) would be distributed to taxpayers via an individual income tax credit mechanism. This aspect of the legislation was for fiscal 2007 revenues only and was applicable to returns filed for tax year 2007. In addition to this one-time provision, the bill also outlined procedures for the Revenue and Transportation Committee (RTIC) to follow to determine if individual income tax credits should be authorized in subsequent biennia.

The purpose of this memorandum is to seek input from the RTIC on information the committee will need to fulfill the requirements delineated in 15-30-140 (b) (i), MCA. This statute requires the RTIC to determine whether a change in the income tax credit "relief multiple" is justified. This factor (relief multiple) is used to determine the amount of individual income tax credits authorized for subsequent tax years. Since the Legislative Fiscal Division (LFD) is currently developing work plans for the next budget analysis cycle, any fiscal analysis required by the RTIC needs to be planned for accordingly by the LFD.

BACKGROUND

As specified in 15-30-140, MCA, a refundable income tax credit is authorized to offset a portion of statewide property tax levies on principal residences. This credit is calculated by multiplying the amount of statewide (95 mills) property taxes imposed and paid on \$20,000 of market value of a property taxpayer's principal residence times a "relief multiple". The relief multiple is defined as a number used to change the amount of tax relief (credits) authorized. For tax year

2007, the relief multiple was determined to be 3.6. This amount was based on the amount of revenue received in fiscal 2007 that exceeded \$1.802 billion. The relief multiple is statutorily set at zero for subsequent years.

In addition, 15-30-140 (b) (i), MCA, states the following: *“Each interim, the revenue and transportation interim committee shall, based upon actual and projected state revenue and spending and any other appropriate factors, determine if a change in the relief multiple is justified. If a change is justified, the committee shall request a bill to change the relief multiple.”*

To fulfill this requirement, RTIC will need fiscal information on state revenues and disbursements for the current biennium as well as the 2011 biennium. Although statute does not specify which fund or funds is to be analyzed, the general fund is assumed because any tax credits authorized would reduce general fund revenues.

What information is available from the LFD

Prior to the convening of each regular legislative session (early October), the LFD prepares a report called “The Big Picture Report”. The purpose of this report is to provide the Legislative Finance Committee (LFC), the Revenue and Transportation Interim Committee, and the members of the legislature with a preliminary projection of the general fund balance for the next biennium at present law levels of revenue and disbursements. As defined by statute, present law levels represent the funds necessary to continue programs and services authorized by the previous legislature, and include caseload, workload, and enrollment adjustments. This report provides an estimate of the availability of funding for maintenance of existing services as well as for new and expanded programs. This document is intended to provide a broad overview of the scope of present law fiscal issues the legislature may face in the next session, and the starting point, or benchmark, for crafting the next biennium budget priorities. These projections are based on “broad brush” general assumptions of revenue and disbursement patterns from the most current available information.

In addition to the projection, the report includes: 1) a discussion of the assumptions used to derive the present law amounts; 2) recommended LFD adjustments; 3) significant issues not included in the projections due to an uncertain or unknown impact; and 4) a discussion of the structural balance in the general fund account. The projections do not include other fiscal issues that may face the next legislature, including executive or legislative new proposals/initiatives, potential supplemental appropriations, pending litigation cases, or the potential impact of voter initiatives. These and any other significant issues are, however, listed and discussed in the report.

Since this report will provide fiscal information on actual and projected state revenue and disbursements for both the current and future biennium, it would appear this information could be used by the committee to determine recommended policy on future individual income tax credits. It should be emphasized, however, that this report is based on the statutory definition of present law and the cost of providing the same level of services in the next biennium. This report will not include new initiatives or proposals being considered by the executive or the legislature for both revenue and disbursement fiscal policies. For example, if the executive or the legislature proposes to increase state employee pay, the estimated cost of this proposal would not be included in the LFD analysis. This means the committee will have to assess the merits of tax

credits against the cost of present law services without the benefit of knowing other new initiatives for revenue and disbursement policies. This premise, however; is based on the assumption the committee would discuss this issue prior to the release of the preliminary executive budget on November 15. If the committee chose to discuss this issue after this date, then the committee would have a summary of new initiatives included in the executive budget.

Questions

Will the “Big Picture Report” be sufficient for RTIC to fulfill the requirements specified in 15-30-140 (b) (i), MCA?

If the answer is no, what information would be more useful to the committee?

The “Big Picture Report” is usually available in early October. Will this timeframe be adequate for the RTIC decision making process?

Is there any additional information the LFD could provide that would assist the RTIC decision making process?

Would the RTIC prefer to discuss this issue after the release of the preliminary executive budget on November 15?

If yes, this would mean the committee would need to meet again after November 15 and the LFD would need adequate time to summarize the new initiatives contained in the executive budget.

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